

Appendix 1:

NEAR GENERAL FUND- STATE FUNDS/ACCOUNTS

Near General Fund- State Funds/Accounts

These are funds/accounts that, while used for specific purposes, are rather broad in nature and similar to those funded in the state General Fund. These accounts together are commonly referred to as "near general fund-state" accounts (NGF-S). In addition to the General Fund, traditional NGF-S accounts include the Health Services Account (HSA), the Student Achievement Fund (SAF), the Violence Reduction and Drug Enforcement Account (VRDE) and the Public Safety and Education Account (PSEA). The Education Legacy Trust Account was created in 2005 and is similar to these other NGF-S accounts.

In 2005, SSB 6078 modified the state expenditure limit by adding the HSA, SAF, VRDE, and PSEA to the General Fund as accounts covered by the state expenditure limit. The Water Quality Account was also included; the Education Legacy Trust Account was not.

Following is a summary of these traditional or expenditure limit related NGF-S accounts.

General Fund (GF)

- Becoming effective in 1907, the GF accounts for all the state resources except those required to be deposited in another fund. The GF is the principle fund supporting the operation of the state.
- Primary sources of revenue include: the sales tax, business and occupation tax, the property tax, and other taxes.
- \$26 billion is appropriated from the GF for the 2005-07 biennium.

Health Services Account (HSA)

- Becoming effective in 1993, the HSA is used for maintaining and expanding health services for low income persons, maintaining and expanding the public health system. Primary programs funded from the account include the Basic Health Plan, funding for local health districts, vaccines, and health care for children (Medicaid and SCHIP)
- Primary sources of revenue are: beer, liquor, and tobacco taxes; proceeds from the tobacco lawsuit (Master Settlement Agreement); and certain health related taxes such as the hospital B&O tax and the insurance premium tax.
- \$1.2 billion is appropriated from the HSA in 2005-07, primarily to DSHS (\$643 million) and the Health Care Authority (\$456 million).

Student Achievement Fund (SAF)

- Becoming effective in 2000, the SAF is used by school districts to lower class sizes, expand learning opportunities for students, provide professional development for educators, and provide early childhood programs.

- Primary sources of revenue are a portion of the state property tax, and transfers from the Emergency Reserve Account and the Education Legacy Trust Account.
- \$629 million is appropriated for 2005-07 from the SAF.

Public Safety and Education Account (PSEA)

- Becoming effective in 1984, the PSEA is used for criminal justice training, crime victims compensation, civil representation of indigent persons, winter recreational parking, judicial education, the judicial information system, and state game programs. The Equal Justice subaccount provides additional funds to be used for criminal indigent defense, representation of parents in dependency and termination proceedings, civil representation of indigent persons, and contributions toward district court judges salaries and eligible municipal court judges salaries.
- Primary sources of revenue include fines, fees, forfeitures, penalties, and reimbursements (especially traffic infractions).
- \$163 million is appropriated for 2005-07 primarily to the Office of Administrator for the Courts (\$50 million), the Department of Labor and Industries (\$27 million), the Department of Corrections (\$20 million), the Criminal Justice training Commission (\$19 million), DSHS (\$15 million), and the Office of Public Defense (\$13 million).

Violence Reduction and Drug Enforcement Account (VRDE)

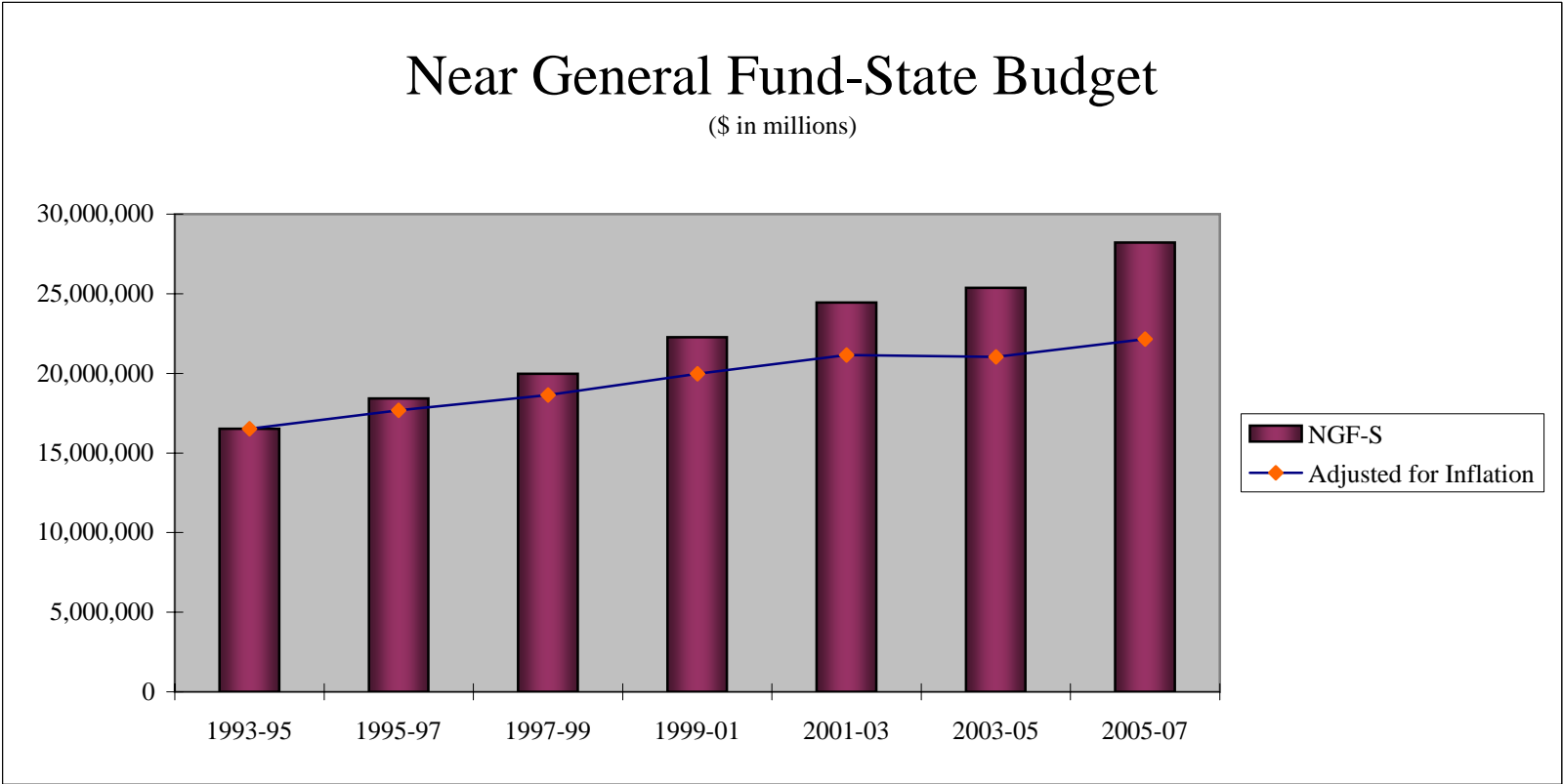
- Becoming effective in 1989, VRDE is used to fund services under the 1989 Omnibus Alcohol and Controlled Substances Act.
- Primary sources of revenue include the cigarette tax, syrup (soda) tax, some tobacco products taxes, liter tax on liquor, beer tax, wine tax, and firearms licenses, fees, and permits.
- \$104 million is appropriated in 2005-07 from VRDE, primarily to DSHS (\$91 million) and the Department of Community, Trade, and Economic Development (\$7 million).

Water Quality Account (WQA)

- Becoming effective in 1986, the WQA is used to assist in meeting federal and state water pollution control requirements for protection of the state's waters.
- The primary sources of revenue are cigarette taxes and transfers from the general fund. In 2003-05 and 2005-07, appropriations from the Capital Budget offset some of the general fund required contribution.
- \$32 million is appropriated for 2005-07 to the Department of Ecology.

Education Legacy Trust Account

- Created and effective in 2005, the Education Legacy Trust Account is used for supporting activities in the Student Achievement Fund, for expanding access to higher education, and for other education improvement activities.
- The primary source of revenue is the cigarette tax and estate tax.
- \$175 million is appropriated for 2005-07, \$150 million to higher education for financial aid and enrollments, and \$25 million for K-12 to expand Learning Assistance Programs. Other funds are deposited into the Student Achievement Fund.



GF-S (\$ in billions)

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Total	16.5	18.4	20.0	22.3	24.4	25.4	28.2
Adjusted for Inflation	16.5	17.7	18.6	20.0	21.2	21.0	22.2

Appendix 2:

SUMMARY OF THE 2005-07 OPERATING BUDGET

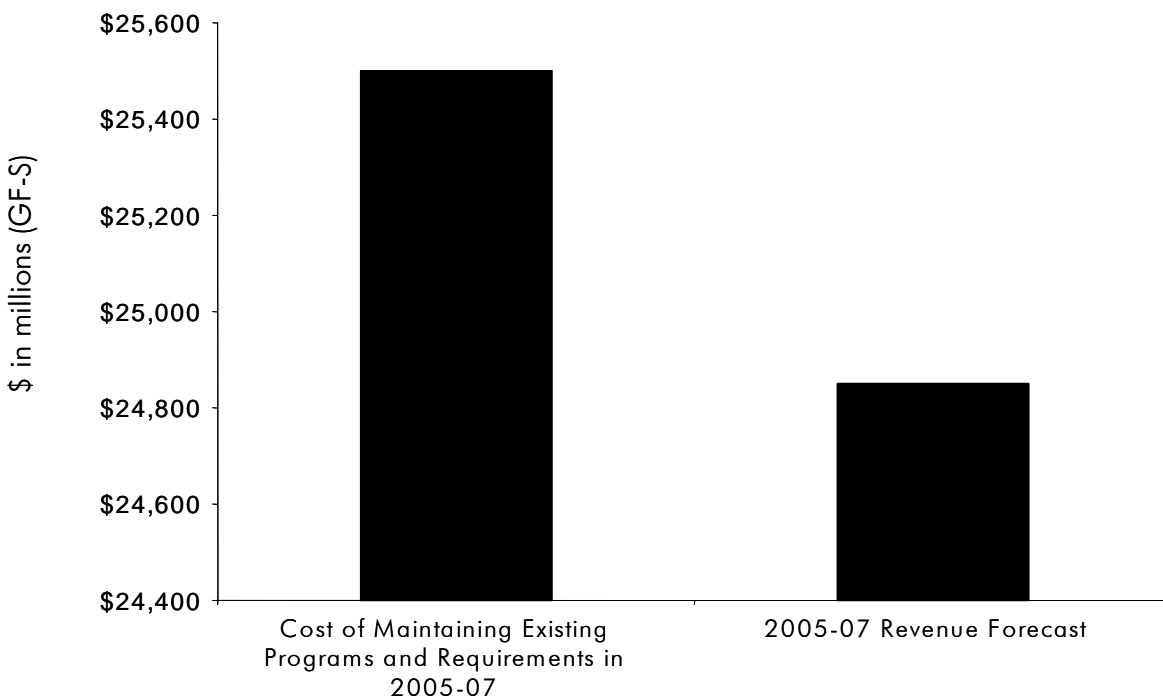
2005-07 Operating Budget Overview

Summary

Even after a positive March 2005 revenue forecast, the legislature faced operating budget challenges for the 2005-07 biennium. The cost of carrying forward into 2005-07 the general fund state programs from the 2003-05 biennium was \$650 million more than the forecasted revenue for the 2005-07 biennium. This is due in part to the cost of maintaining 2003-05 programs increasing by nearly 10%, while revenues increase by approximately 7 percent. In addition, federal funding was reduced in several areas. Here is a summary of some of the budget items putting pressure on the 2005-07 operating budget:

- Maintaining General Fund-State programs and services at the Department of Social and Health Services increased by about 15 percent, led by medical assistance with a 28% increase
- The cost of funding K-12's existing programs increase 8%
- The cost of funding statutory pension costs increased about 300%

This is illustrated as follows:



The Legislature used a combination of new taxes, fund transfers, other resources, and some reductions to address the \$650 million General Fund-State gap between maintaining existing programs/requirements and available revenue, and to provide a net increase in programs and services for 2005-07 of \$425 million.

For 2005-07, General Fund-State appropriations in ESSB 6090 total \$26.0 billion while total budgeted funds, including federal funds, total \$49.5 billion. Appropriations from state funds that are similar to the general fund, commonly referred to as "near General Fund-State," total \$28.2 million. These state funds are the Health Services Account, the Public Safety and Education Account, the Equal Justice Account, the Violence Reduction and Drug Enforcement Account, the Student Achievement Fund, the Education Legacy Trust Account, and the General Fund itself.

Public Schools

Funding in the budget is provided for nearly 1 million students. This includes:

- \$138 million for the I-728 step-up (maintenance level)
- \$139 million for I-732 salary increases of 1.2% and 1.7% beginning September 1st of 2005 and 2006 respectively
- \$29.3 million in additional funding for special education
- \$25.1 million to expand the Learning Assistance Program (based solely on poverty)

Higher Education

Funding is provided for approximately 225,000 students. The major changes for 2005-07 include:

- \$72.5 million for 7,900 additional students
- \$69.7 million in additional state need grants
- Assumes annual tuition increases of 5% at community and technical colleges, 6% at regional universities, and 7% at the two research universities

Health and Human Services

Funding is provided for health care for more than 950,000 needy children and adults, for social services for children, adults, and families, and for public safety, including funding to incarcerate over 17,000 prisoners:

- \$51 million to maintain the Basic Health Plan enrollment at 100,000 (maintenance level)
- \$33 million general fund-state to maintain an annual review of children's eligibility for state medical coverage.
- \$13 million general fund-state for enrollment of approximately 8,500 undocumented children in low-income families
- \$80 million to backfill most of the federal funding reduction for community mental health

- \$14.2 million for child welfare system improvements
- \$29.0 million in increased funding for subsidized child care and early childhood education programs.
- \$31 million for implementation of the home care worker collective bargaining agreement
- \$11.25 million for the Offender-Based Tracking System

State Employees

Funding is provided for salaries and benefits for approximately 100,000 state and higher education employees. The major changes for 2005-07 include:

- Represented employees receive a COLA of 3.2 and 1.6 on July 1st of 2005 and 2006 respectively, while non-represented employees receive a similar COLA on September 1st of 2006 and 2007, respectively.
- \$120.5 million for increased costs of general government and higher education employee health benefits.
- \$327 million in reduced costs resulting from pension funding decisions.

Other Funding

Other funding changes include:

- \$27 million in additional federal funds for the Help America Vote Act
- \$10 million in non-general fund-state dollars for the Homeless Housing Program
- \$25.3 million in additional funding for natural resources

Ending Fund Balance

The estimated ending fund balance is \$179.3 million.

Governor Vetoes

ESSB 6090 includes both the 2005-07 Operating budget and the 2005 Supplemental budget to the 2003-05 Operating budget. The Governor's major vetoes included:

- Reductions of \$16.8 million to DSHS in the 2005 Supplemental budget.
- A transfer of \$13.9 million from the Tobacco Prevention and Control Account in the 2005-07 Biennial Budget.

These vetoes reduced the estimated ending fund balance by \$30.7 million.

2005-07 Enacted Budget

Policy Level Changes

(Dollars in Thousands)

K-12 Education

Special Education Funding	29,290
Expand LAP	25,075
Other	6,819
Science WASL	4,471
Assessment System	3,155
Focused Assistance	2,000
Reading Model/Early Reading Grants	500
Alternative Routes to Teaching	-1,096
Reading Corps	-5,726
School Bus Depreciation	-6,482
Levy Equalization	-12,922
K-12 Education Total	45,084

Higher Ed

General Enrollments	72,571
State Need Grant	69,659
Faculty Increments	4,500
Part-Time Faculty Equity	4,500
Adult Basic Ed	4,000
Other Financial Aid	3,892
Veterinary Medicine	1,521
Autism Centers	1,125
M&O on Recent Buildings	1,117
Other	1,009
Lower Division Planning Funds	550
Life Science	150
Non-Instruction Reduction	-10,336
Promise Scholarship	-12,617
Maintenance & Operations Shift	-14,999
Tuition Rate Increase	-16,642
Higher Ed Total	110,000

2005-07 Enacted Budget

Policy Level Changes

(Dollars in Thousands)

Health Care

Non-Medicaid Services-Community	80,700
Local Public Health Funding	48,000
Medicaid Eligibility Reviews	32,650
Drug/MH Integration	8,891
Children's Health Premiums	8,753
Children's Health Program	7,878
Mental Hlth Forensic Services	7,400
Expand Alcohol/Drug Trtmnt for Youth	5,045
Expand Preventive Svcs	4,611
Safe Mother, Safe Babies	1,760
Mental Health - Other	1,214
Other	1,007
Lease, Med Inflation and Equip Red	-2,449
Contract Out Drug Rebate Collection	-3,739
Patients Requiring Review	-5,334
Increase Rebates and Recoveries	-6,392
Other MAA	-6,589
IGT Design	-47,163
Health Care Total	136,243

Childrens, Long Term Care & DD

DD Other	13,253
LTC: NH Rates	10,986
CPS/CWS Reform	10,189
Childrens: Enhance Child Welfare SVCS	3,500
Increase Personal Needs Allowance	1,390
Farmers Market Nutrition	932
Education Coordinators	900
Other	658
Childrens: Other	-37
Fircrest School	-1,236
Reduce AAA Funding	-1,413
Childrens: CRCs	-1,712
Lease, Med Inflation and Equip Red	-2,299
Reduce/Elim Family Policy Council	-2,384
Nursing Home Tax Phase-Out	-4,657
Estate Recovery	-4,799
Childrens: Caseload & Rates	-5,006
Childrens, Long Term Care & DD Total	18,265

2005-07 Enacted Budget

Policy Level Changes

(Dollars in Thousands)

Other Human Services

Maintain WorkFirst Program	15,000
DOC: OMNI Computer System	11,250
Other	3,282
Increase ECEAP	2,994
LEP Services Enhancement	1,500
JRA: Maintain Co-Occurring Disorders Pgm	1,428
Naturalization Services	1,000
JRA	-912
Lease, Med Inflation and Equip Red	-3,190
DOC: Leases, Med Inflation, & Equip Reduction	-3,946
DOC: Sentencing & Supervision	-4,396
DOC: Other	-4,884
Reduce DSHS Regional Staff	-5,614
Delay Opening of New Units	-7,385
GAU	-18,010
Other Human Services Total	-11,883

Natural Resources

DNR: Shellfish Settlement	9,000
Shoreline Planning Grants	2,500
DNR: Forest & Fish	2,300
Other	1,695
State Parks	1,693
Dept of Ecology	1,626
Dept of Agriculture	1,411
Hood Canal Water Quality	1,300
Fish & Wildlife	941
DNR: Recreation	596
Ag: Market Access/Trade Barrier	500
DNR: Other	-259
Natural Resources Total	23,303

Compensation

Hlth Benefits K12	126,196
Health Benefits (GG & H.Ed.)	120,496
COLA Represented	108,258
COLA Non-Rep. (H. Ed.)	60,720
COLA Non-Rep. (G.G)	31,819
Salary Survey Non-Rep.	11,336
Classification Revisions	2,264
Other	879
Pension Method Change	-327,212
Compensation Total	134,756

2005-07 Enacted Budget

Policy Level Changes

(Dollars in Thousands)

Vendors including Homecare Workers

MAA: Service Rate Increase	33,995
Home Care Workers (IPs)	31,303
DSHS: Econ Svcs	25,766
DSHS: Mental Health	14,401
DSHS: Alcohol & Substance Abuse	7,114
DSHS: DD	6,166
DSHS: Childrens	5,955
Home Care Workers (APs)	5,935
DSHS: Long Term Care	5,227
CTED/ECEAP	3,198
Other	1,505
DSHS: Juv Rehab	953
Vendors including Homecare Workers Total	141,518

All Other

Debt Service: 05-07 Cap Budget	27,200
Other	10,350
Crime Lab & DNA Costs	4,598
Mission Critical Staffing	4,000
AOC: Equipment Replacement	3,890
Government Performance (HB 1064)	3,020
Revenue Enforcement Enhancement	2,980
LEOFF Disability Allowance	1,900
Justice Funding - SB 5454	1,800
Consumer Protection Expansion	1,566
Emergency Food Assistance	1,450
Community Mobilization	1,154
Individual Development Acct (HB 1408)	1,021
Methamphetamine Initiative	1,000
Community Services Block Grant	1,000
Justice Information Network	684
Create Archaeology Dept (5056)	13
Eliminate INTEC	-968
K-20 Telecommunications Network	-3,420
Eliminate Double-Filled Positions	-4,000
No Code	-4,789
Business & Professions Account	-7,685
Middle Management	-20,724
Strategic Sourcing	-25,000
All Other Total	1,040

Grand Total

598,326

2005-07 Enacted Operating Budget

(\$ in thousands)

	General Fund-State	Near General Fund-	Total Budgeted
Legislative	140,970	140,970	148,103
Judicial	95,869	166,842	205,183
Governmental Operations	460,076	475,979	3,188,651
Other Human Services	1,574,840	2,137,942	4,153,090
DSHS	7,883,928	8,632,477	17,217,073
Natural Resources	366,902	367,537	1,296,763
Transportation	70,464	75,718	145,790
Public Schools	10,914,763	11,569,194	13,147,661
Higher Education	2,900,607	3,050,609	8,105,412
Other Education	43,974	43,974	105,940
Special Appropriations	1,500,021	1,548,091	1,736,187
Statewide Total	25,952,414	28,209,333	49,449,853

Appendix 3:

THE OFFICE OF FINANCIAL MANAGEMENT'S SIX YEAR OUTLOOK

SIX YEAR OUTLOOK--Dollars in Millions

December 20, 2005

	2006	2007	2008	2009	2010	2011
Beginning Balance (General Fund-State)	853	386	201	396	(179)	(981)
Revenues						
BASELINE (November 2005 revenue forecast, 5% annual growth after 2007)	12,946	13,389	14,059	14,762	15,500	16,275
Money Transfers	130	87				
Subtotal	13,076	13,476	14,059	14,762	15,500	16,275
<i>Governor's 2006 Supplemental Revenue Proposals</i>	-	(28)	(28)	(24)	(22)	(18)
<i>Governor's 2006 Supplemental Money Transfers</i>	(5)	(12)	-	-	-	-
<i>Pension Funding Stabilization Account set-aside</i>	-		115	12		
<i>Economic Stability Account set-aside</i>			464			
<i>Initiative 601 Transfer to the Emergency Reserve Account</i>	(113)					
TOTAL REVENUE	12,959	13,437	14,609	14,750	15,478	16,257
Biennial Total		26,396		29,359		31,735
Expenditures (see notes on next page*)						
Baseline Expenditures	12,769	13,184	13,431	13,676	13,932	14,212
Pension Costs			147	259	357	389
Pension Costs--Fund Gainsharing			90	96	101	107
<i>K-12 Teacher/staff and Community and Technical Colleges COLA - Initiative 732 (1.85%, 2.2%, 2.0%, 2.0%) **</i>			68	169	247	347
<i>State employee/Higher Education COLA (1.9%, 2.1%, 2.2%, 2.4%)** Implicit Price Deflator</i>			45	96	150	211
<i>Employee health insurance (state government, K-12, higher education) (10% per capita increase)</i>			92	194	306	431
<i>Medical Assistance (6% per capita increase; 3.5% caseload)</i>			148	309	486	680
<i>Health Services Account Backfill</i>			39	119	274	351
<i>Continuation of Education Legacy Programs (Learning Assistance Program/Higher Education)</i>			106	111	117	123
Subtotal	12,769	13,184	14,165	15,029	15,970	16,850
Governor's 2006 Supplemental Budget						
Required New Spending	45	235	134	159	167	175
Optional Additions (Including \$49m to Unfunded Pension Liability)	20	203	116	137	144	151
Appropriation to Pension Funding Stabilization Account	127					
Appropriation to Economic Stability Account	464					
TOTAL EXPENDITURES	13,425	13,622	14,415	15,325	16,281	17,176
Biennial Total		27,047		29,740		33,457
General Fund-State ENDING BALANCE	386	201	396	(179)	(981)	(1,900)
SUMMARY OF POTENTIAL GENERAL FUND SURPLUS/DEFICIT						
Preliminary General Fund-State Budget Surplus/Deficit (from projected ending balances)	386	201	396	(179)	(981)	(1,900)
Provision for General Fund-State Reserve			(300)	(300)	(300)	(300)
Potential General Fund-State Budget Surplus/Deficit (from projected ending balances)	386	201	96	(479)	(1,281)	(2,200)
Pension Funding Stabilization Account set-aside		127				
Economic Stability Account set-aside		464				
Initiative 601 Emergency Reserve Account	113	113	113	113	113	113
TOTAL POTENTIAL SURPLUS/DEFICIT (including Emergency Reserve, Pension & Economic Stability Accounts)	499	905	208	(366)	(1,169)	(2,087)

Source: OFM

EXPENDITURE ASSUMPTIONS

- >Assumes enacted 2005-07 budget plus Governor Gregoire's Proposed 2006 Supplemental Budget and November Caseload Forecast Council forecasts.
 - >Assumes all other programs grow based on OFM population cohort forecast, and Caseload Forecast Council forecasts where applicable.
 - >Initiative 732 COLA is based on the final November economic forecast for Seattle Consumer Price Index (CPI).
 - >Assumes vendor rate increase based on Implicit Price Deflator (IPD).
 - >Assumes 4% inflation for non-Medical Assistance DSHS health care related programs (Developmental Disabilities, Long Term Care, Alcohol and Substance Abuse, Mental Health).
 - >Assumes average debt service growth of 6.5% per year over forecast period.
 - >Assumes "all other objects" (excluding salaries, benefits, pensions, vendors) grow by IPD plus one-half associated caseload or population growth.
 - >Pension funding in FY 2008 is less than the previous 6-year Outlook because of \$50 million paid toward the unfunded liability in FY 2007.
- ** Does **NOT** include the one-time Fiscal Year 2007 1.6% salary increase in the base for future calculations per negotiated contracts and budget bill language.

Appendix 4:

GLOSSARY OF BUDGET TERMS

Budget Terms

Appropriation – The legislative authorization in a bill to make expenditures and incur obligations from a particular fund. Appropriations typically limit expenditures to a specific amount and purpose within a fiscal year or biennial timeframe.

Biennium – A two-year fiscal period. The Washington State biennium runs from July 1 of an odd-numbered year to June 30 of the next odd-numbered year (The 2005-07 biennium begins on July 1, 2005 and ends June 30, 2007).

Budget Notes – A legislative fiscal staff publication that summarizes the budget passed by the state Legislature. The publication is usually distributed a few months after the end of the legislative session. Budget notes provide guidance but do not have the same legal force as appropriation bill language.

Bow Wave – Any additional cost (or savings) that occurs in the future because a budget item in the current biennium is not in place for the entire biennium. Example: A program started in the last six months of this biennium might cost \$100,000. If that program operates for a full 24 months next biennium, costing \$400,000, then the current biennium budget decision is said to have a bow wave of \$300,000.

Caseloads – Caseload means the number of persons expected to meet entitlement requirements and utilize the services of state correctional institutions, state correctional non-institutional supervision, state institutions for juvenile offenders, the public schools (K-12), long-term care, medical assistance, foster care, and adoption support.

Dedicated Funds – Funds set up by law to receive revenue from a specific source and to be spent for a specific purpose.

Entitlement – A service or payment that, under state or federal law, must be provided to all applicants who meet the eligibility requirements.

Fiscal Year – The state fiscal is the 12 month period from July 1 through the next June 30. Fiscal Year (FY) 2007 begins July 1, 2006 and ends June 30, 2007. The federal fiscal year runs October 1 through September 30.

Fiscal Note – A statement of the estimated fiscal impact of proposed legislation. This cost estimate is developed by the state agencies affected by the bill, and then approved and communicated to the Legislature by the Office of Financial Management.

Full-Time Equivalent (FTE) – *As a unit of measure of state employees:* refers to the equivalent of one person working full-time for one year (approximately 2,088 hours of paid staff time). Two persons working half-time also count as one FTE. *As a unit of measure of students in K-12 or Higher Education facilities:* refers to the equivalent of one student attending class full-time for one school year (based on fixed hours of attendance, depending on grade level).

Fund – An independent budget and accounting entity with a self-balancing set of accounts representing all related resources, obligations and reserves.

Fund Balance – In budget terminology, the difference between estimated resources and budgeted expenditures.

General Fund-State – The general fund represents all financial resources and transactions not required by law to be accounted for in other funds. General Fund-State (GF-S) refers to the basic account that receives revenue from Washington’s sales, property, business and occupation, and other general taxes; and is spent for operations such as public schools, social services, and corrections.

Initiative 601 – An initiative passed in the November 1993 general election dealing with expenditures, taxes, and fees. Its primary requirements are: an *expenditure limit* based on a fiscal growth factor and other provisions; an *emergency reserve account*; a limit on how much state fees can be raised without legislative approval; and a two-thirds legislative vote requirement on certain state tax increases. The two-thirds vote requirement for certain tax increases was suspended for the 2005-07 biennium. Significant changes were made to the expenditure limit in the 2005-07 biennium.

Maintenance Level – A projected expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated using current appropriations, the bow wave of legislative intentions assumed in existing appropriations (costs or savings), and adjustments for trends in entitlement caseload/enrollment and other mandatory expenses.

Nonappropriated Funds – Funds where expenditures can be made without legislative appropriation. Only funds specifically established in state law and that are outside the state treasury may be exempt from appropriation (most notable example is tuition at higher education institutions).

Operating Budget – A series of specific appropriations made to individual agencies in a bill providing for the administrative and service functions of state government, including K-12, higher education, and human services.

Performance Measure – A quantitative indicator of how programs or services are directly contributing to the achievement of an agency’s objectives. These indicators may include measure of inputs, outputs, outcomes, productivity, and/or quality.

Proviso – Language in budget bills that places a specific condition on the use of appropriations. Example: “\$500,000 of the General fund-State appropriation is provided solely for five additional inspectors in the food safety program.”

